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DEFENSE CONTRACT AUDIT AGENCY

CAMERON STATION
ALEXANDRIA, VIRGINIA 22314

OSA-0986-67

I-67-29-70

REPLY TO:

Audit Liaison Office

P.O. Box 8155

S.W. Station

Washington, D.C. 20024

9 March 1967

SUBJECT: Advisory Report on Evaluation of
Revised Proposal for Additional Work
Lockheed Aircraft Corporation
(Lockheed-California Company)
Burbank, California
Contract No. SP-1928

TO : Contracting Officer

REF : Contractor's 27 December 1966 Revised Proposal

1. Per request, an evaluation has been performed of the reference proposal.

This evaluation relates generally to the revised estimated costs of Items 1 and 2 (modification of 7 units and 4 sets conversion parts) but specifically to the proposed estimated costs for modifying three additional airplanes. It included (1) verifying that the contractor computed appropriate midpoints of labor effort, (2) verifying that the midpoint direct labor rates used were those negotiated in May 1966, (3) verifying that the overhead and G&A rates used were those negotiated and approved in December 1966, and (4) comparing proposed material costs with those recorded and committed through 29 January 1967.

2. As a result of our evaluation, none of the proposed costs applicable to modifying the three additional airplanes is questioned. The proposed revised total estimated contract cost/price are summarized below. The auditor's equivalent recommendation with pertinent comments follows:

<u>Contractor</u>	<u>Estimated Cost</u>	<u>Profit</u>	<u>Estimated Price</u>	<u>Ceiling Price</u>
Initial seven airplanes/four sets of parts				
Three additional airplanes				

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3. This contract is a FPR-type contract with limited upward and unlimited downward adjustment provision at completion. The contract does not specify the estimated cost and rate of profit. However, by using the initial profit claimed for Items 1 and 2 of [REDACTED] the initial estimated price of [REDACTED] and the initial ceiling price of [REDACTED] it appears that the contemplated profit rate was [REDACTED]. There is no incentive or formal sharing arrangement on costs to determine profit on a FPR type contract. Therefore, the auditor's profit computation in above paragraph 3, is based upon the use of a [REDACTED] profit rate. This is a preliminary computation of total price at completion for funding purposes as the final redetermination is only after completion of the contract. At completion and upon receipt of the contractor's final claim, this audit report will be issued.

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4. The auditor recommends that technically qualified personnel evaluate the proposed hours, material costs, and other direct charges. This recommendation is made in view of the substantial decreases in proposed labor hours and material costs between the initial and revised estimated proposal for Items 1 and 2, approximating [REDACTED] respectively. It is recommended that these costs applicable to the three airplanes be evaluated for a determination of reasonableness.

ARTHUR G. HANLEY
DCAA Representative - APE